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Viewing cable 10MANAGUA111, BUSINESS LEADERS ON ALBA'S ECONOMIC CLOUT IN NICARAGUA

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Reference ID	Created	Released	Classification	Origin
10MANAGUA111	2010-02-22 22:02	2011-08-30 01:44	CONFIDENTIAL	Embassy Managua

Appears in these articles:

<http://www.nacion.com/2011-05-30/Mundo/NotasSecundarias/Mundo2758456.aspx>
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<http://www.nacion.com/2011-05-16/Mundo/NotasSecundarias/Mundo2757239.aspx>
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<http://www.confidencial.com.ni/articulo/3967/barreto-era-ldquo-fuente-confiable-rdquo-para-eeuu>

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C O N F I D E N T I A L SECTION 01 OF 03 MANAGUA 000111

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E.O. 12958: DECL: 2020/02/22
TAGS: [ECON](#) [EFIN](#) [EAID](#) [PGOV](#) [PREL](#) [NU](#)
SUBJECT: BUSINESS LEADERS ON ALBA'S ECONOMIC CLOUT IN NICARAGUA

CLASSIFIED BY: RobertJCallahan, Ambassador; REASON: 1.4(B), (D)

Summary

11. (C) Participants in the Ambassador's February 5 economic roundtable shared observations and anecdotes concerning the influence of Chavez's Bolivarian Alliance for the Americas (ALBA) funds in the Nicaraguan economy. Attendees stressed that the ongoing economic downturn in Venezuela could eventually result in significant revenue problems for President Ortega's Sandinista National Liberation Front (FSLN) party if Chavez decides to cut funding for his political allies. WalMart Nicaragua reported a surprising spike in January sales at its local supermarket chains, while a prominent local banker predicted anemic economic growth in 2010. On the drought affecting Nicaraguan agricultural production, attendees admitted it was significant, but described it as mainly a problem in the three northern departments of Nueva Segovia, Madriz, and Esteli.

Candy and Snack-Making Stimulus Plan

12. (C) The impact of ALBA funds in Nicaragua dominated the Ambassador's February 5 economic roundtable. All attendees concurred that the estimated annual infusion of approximately \$600 million from Venezuela into a small economy such as Nicaragua's (GDP of just \$6 billion) creates significant market distortions. Alejandro Martinez Cuenca, former Minister of Economy in the 1980s during the first FSLN government, now a successful entrepreneur, told the Ambassador that in December, during the lead-up to Christmas, First Lady Rosario Murillo ordered \$500,000 worth of sweets in the city of Masaya (population 150,000). In Managua, according to Cuenca, the First Lady made a similar order in December by spending \$300,000 on cookies.

13. (C) Both of these moves, according to Martinez Cuenca, constituted astute ALBA-led stimulus drives, employing thousands of people in a highly visible effort. He laughingly told the Ambassador that the First Lady's order in Masaya transformed the entire town into a candy-making factory. Martinez Cuenca also said that unlike during typical Christmas seasons, he was amazed to see markets busy and open until 2:00 a.m. on Christmas Eve, and he opined that this was another example of ALBA funds weaving their way into the larger economy. Drawing on these examples, he commented that after three years of ALBA cash infusions (which

began in 2007 with President Ortega's inauguration), the FSLN was becoming savvy at exploiting these funds for populist appeal. Martinez Cuenca predicted similar moves on the part of the FSLN as 2011 presidential elections approach.

Are ALBA Funds Sustainable?

14. (C) Eduardo Montiel, a professor of economics at INCAE, a prominent local business school, told the Ambassador that Venezuela's domestic economic troubles suggest that transfers of \$600 million annually to Nicaragua are not sustainable. Joaquin De Magalhaes, Venezuelan General Manager for Exxon Mobil in Nicaragua, countered that compared to Venezuela's foreign exchange reserves of over \$30 billion, Chavez's investment in Nicaragua is actually quite small, and one that pays enormous political dividends. Martinez Cuenca estimated that Ortega and the FSLN could last about one year in the event of an ALBA funds cutoff; after that, Ortega would encounter serious problems if he attempted to continue his lavish patronage programs and aggressive acquisition of assets in Nicaragua. He also commented on the folly of Venezuela's new dual exchange rate regime, saying that the FSLN's attempt to adopt a similar mechanism in the 1980s was a dismal failure. In the end, such a mechanism leads to the creation of a complex, arbitrary bureaucracy incapable of managing monetary policy.

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Some Signs of Life in the Economy...

15. (C) Eduardo Garcia, head of WalMart Nicaragua, told the Ambassador that sales at both of its grocery chains in Nicaragua were way up in January. In particular, Garcia said that sales at WalMart's discount grocery store chains in Nicaragua, Pali, were up by 15% in January. Garcia was unable to pinpoint a specific reason for the spike in sales, but others in the roundtable speculated that the First Lady's December "stimulus" may have contributed. Duilio Baltodano of Cisa Agro, a major Nicaraguan food processor, said that the agricultural outlook for 2010 looks favorable.

...But Drought Affects Northern Nicaragua

16. (C) Giving credence to numerous media reports of drought-like conditions in Nicaragua, Alredo Velez, Corporate Vice President for Cargill, said that his company had recently placed a large order for sorghum, but that the supplier was only able to produce 55% of the desired quantity. Velez told the Ambassador this represented tangible proof that the drought is affecting agricultural yields. Roberto Bendana of CafC) Don Paco, a major coffee producer, confirmed the severity of the drought, but commented that the primary impact is being felt by subsistence farmers in the northern Nicaraguan departments of Esteli, Madriz, and Nueva Segovia. Eduardo Garcia of WalMart Nicaragua said that the drought has affected its supply chain in northern Nicaragua. He added that he had contacted the Nicaraguan Ministry of Agriculture to discuss the drought and how WalMart might work with them to address it, but that the GON denied the problem. Duilio Baltodano of Cisa Agro said in the face of the drought, farmers in the north are selling cattle because there is no pasture for grazing; in turn, this has led to lower prices for livestock.

...And Prominent Banker Bearish on 2010

17. (C) Ramiro Ortiz Jr. of BANPRO, Nicaragua's largest bank, said

that 2010 will resemble 2009, e.g. growth will be modest. Interest rates are increasing as a result of bad consumer loans. Ortiz added that one dilemma facing Nicaraguan banks is excess liquidity due to the scarcity of promising investments or clients. He also said that BANPRO, along with BANCENTRO, regularly buy GON bonds, which pay a return of 6-8% depending on the maturity. Ortiz defended these purchases as sound investments when compared to extremely unfavorable yields in the United States. When pressed about the reliability of the GON to honor its debt obligations, Ortiz told the Ambassador that the GON has not defaulted on its debt since 1991, and that President Ortega wants to avoid a financial crisis at all costs. Ortiz did acknowledge, however, that the GON's foreign buyers of bonds have all but disappeared.

Comment

18. (C) We believe that Martinez Cuenca's analysis with regard to the FSLN's readiness to exploit ALBA funds for populist gain is spot on. As the 2011 presidential election campaign heats up, we fully expect that President Ortega -- and especially First Lady Rosario Murillo -- will not hesitate to spend ALBA funds lavishly in order to cast his image as economic rainmaker. In the unlikely event that Chavez decides to discontinue ALBA funding for Nicaragua, it is conceivable that Ortega could turn to more drastic economic moves (i.e. nationalizations) in order to cement his FSLN

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political apparatus.

19. (U) Participants:

--Joaquim de Magalhaes, General Manager, Exxon Mobil.

--Erwin Kruger, President, Dracma magazine (a monthly economic journal), and former Chief of Staff of the Presidency during the Chamorro Government in the early 1990s.

--Roberto Bendana, Executive Director, CafC) Don Paco and former head of the Competitiveness Commission under the Bolanos Administration.

--Alejandro Martinez Cuenca, President of the International Foundation for Global Economic Challenge (FIDEG). Martinez Cuenca is also an economist, a businessman, and FSLN member. He was Ortega's Minister of Economy in the 1980s.

--Eduardo Montiel, Professor of Economics, INCAE (Central American Business School).

--Ramiro Ortiz Jr., Director, BANPRO.

--Alfredo Velez, Corporate Vice President, Cargill Nicaragua.

--Eduardo Garcia, WalMart Nicaragua.

--Duilio Baltodano, President, Cisa Agro, an agricultural commodity
trader and distributor.
CALLAHAN